# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6845** | **NOTE PREPARED:** Feb 21, 2006
**BILL NUMBER:** HB 1380 | **BILL AMENDED:** Feb 13, 2006

**SUBJECT:** Various Economic Development Matters.

**FIRST AUTHOR:** Rep. Smith J | **BILL STATUS:** As Passed Senate
**FIRST SPONSOR:** Sen. Ford

**FUNDS AFFECTED:** X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

**Summary of Legislation:** (Amended) ***Small Business Impact of Legislation:*** The bill establishes a process by which the small business coordinator may submit comments about the impact of a proposed bill to the Office of Management and Budget (OMB). It authorizes the OMB to review the comments. It also requires, after review by the OMB, the comments to be posted to the General Assembly's web site by the Legislative Services Agency.

***Regional/Local Venture Capital Funds:*** The bill authorizes counties, cities, and towns that receive County Economic Development Income Taxes (CEDIT) to: (1) establish local venture capital funds; and (2) establish regional venture capital funds by pooling CEDIT revenues and grant proceeds. It provides that a regional venture capital fund shall be administered by a governing board. It also authorizes the governing board to make grants or loans from the fund to public or private entities for economic development purposes.

***EDGE Credit Program:*** The bill revises provisions concerning average wages with respect to: (1) eligibility for an EDGE credit to retain existing jobs; and (2) the amount of an EDGE credit to create jobs. It deletes the requirement that an applicant for an EDGE credit for the retention of jobs employ at least 75 persons.

**Effective Date:** April 1, 2006; July 1, 2006.

**Explanation of State Expenditures:** *Small Business Impact of Legislation:* The bill could increase administrative costs incurred by LSA to post information to the General Assembly's website. The bill authorizes a state agency coordinator (as defined by the bill) to review and comment on proposed legislation affecting small business, and authorizes the Office of Management and Budget (OMB) to review and make amendments to the comments. The coordinator in IDEM is the ombudsman appointed under current statute relating to IDEM's Technical and Compliance Assistance Program; and coordinators in other agencies are to be the small business regulatory coordinators appointed under current statute. The bill requires the OMB to forward the comments to LSA for posting on the General Assembly's website. Any cost incurred by a state agency or the OMB to do small business impact review is at the discretion of the agency, with LSA incurring cost to the extent that these discretionary reviews are carried out.

*Regional/Local Venture Capital Funds:* The bill authorizes counties and municipalities to place CEDIT revenue in a Venture Capital Fund (VCF) for: (1) economic development; (2) technology development; and (3) industrial, commercial, and employment growth. Any VCF established by a county or municipality would be subject to an annual audit by the State Board of Accounts (SBA). The audit of a VCF likely could occur at the time the SBA audits other funds of a county or municipality. SBA personnel would likely see an increase in administrative time to complete the audit of any new VCF established under the bill. However, the VCF is required to cover the cost of the audit.

Additionally, terms for establishment of either regional or local VCFs and a governing board would have to be submitted to the IEDC for approval before contributions to the VCF could begin. The provision would likely increase the administrative time of the IEDC to approve VCF multiple-unit agreements.

**Explanation of State Revenues:** (Revised) *EDGE Credit Program:* The bill eliminates the minimum employment requirement under current statute for EDGE credits to be awarded for job retention projects, beginning with applications filed after March 31, 2006. The minimum employment requirement is currently 75 employees. This change could facilitate approvals of EDGE credits for projects that don't meet the current employment requirement. The precise fiscal impact of this change is, however, indeterminable.

*Background:* Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits for job retention were awarded for the first time in 2003. In FY 2004 and FY 2005 the EDGE Board reserved an amount of credits up to the annual $5 M limit for firms that applied and were approved for EDGE credits for job retention. In both years, however, a lesser amount was actually awarded, as some approved applicants failed to complete credit agreements with the EDGE Board. The EDGE Credit amounts (for job retention) actually awarded in FY 2004 totaled approximately $3.3 M and in FY 2004 totaled approximately $3.7 M. (Note: Under current statute, the IEDC Board awards EDGE credits.) So far in FY 2006, the IEDC Board has reserved about $2.4 M in EDGE credits for job retention for approved applicants, but only $750,000 in credits have been awarded.

EDGE credits are awarded for a duration of up to 10 years during which the credit amounts may be used. EDGE credits may be taken against a taxpayer's AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:** *Regional/Local Venture Capital Funds:* Under the bill, counties or municipalities with CEDIT revenue are authorized to use amounts of their CEDIT revenue for venture capital projects. Local authorities are required to establish either a local or regional venture capital fund to retain CEDIT revenue distributed to a local taxing unit. Additionally, a VCF may receive proceeds of either public or private grants. Money in VCFs could be used to provide loans or grants to either a private or public entity. Grants and loans must be spent on: (1) research and development technology; (2) job training and education; (3) acquisition of property interests; (4) infrastructure improvements; (5) new buildings or structures; (6) rehabilitation, renovation, or enlargement of buildings or structures; (7) machinery, equipment, and furnishings; or (8) funding small business development.

VCFs must be administered by a governing board of an unspecified number of individuals. A participating unit in a venture capital project must have at least one member on the governing board. Expenses to operate a VCF are to be paid from money in the VCF, including expense for audits conducted by the State Board of Accounts.

**Explanation of Local Revenues:** *CEDIT Revenue:* The potential impact of CEDIT revenue being utilized in a VCF would depend on local action The bill authorizes counties and municipalities to place CEDIT revenue in a VCF for economic development; technology development; and industrial, commercial, and employment growth. (See *Explanation of Local Expenditures* for discussion of VCF programs.) The bill does not authorize an increase in a county's CEDIT rate. Counties and municipalities that expend CEDIT revenue for VCF purposes would have less of their CEDIT revenue available for other uses allowed under current law.

*Background*: Under current law, CEDIT revenue may be used for several purposes including: (1) county, city, or town economic or capital development projects; (2) capital improvement plans; (3) funding for increased homestead credit due to the reduction of state and county inventory taxes; or (4) maintenance of courthouse facilities. There are currently 72 counties that have adopted CEDIT. CY 2006 certified distributions for all adopting counties totaled $236.5 M. Under current law, CEDIT rates may be set at 0.1%, 0.2%, 0.25%, 0.3%, 0.35%, 0.4%, 0.45%, and 0.5%.

**State Agencies Affected:** Department of State Revenue; Indiana Economic Development Corporation; Legislative Services Agency; Office of Management and Budget; State Board of Accounts.

**Local Agencies Affected:** Counties and municipalities receiving CEDIT revenue.

**Information Sources:** Gretchen White, IEDC, (317) 234-3997. Chad J. Sweeney, IEDC, (317) 233-4459. Indiana Department of Commerce, *2003 EDGE for Retention Annual Report*, March 31, 2004; *2004 EDGE for Retention Annual Report*, March 31, 2005. *Indiana Handbook of Taxes, Revenues, and Appropriations, FY 2005*.

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